

## Auditing Procedures Report

Issued under P.A. 2 of 1963, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>MONTMORENCY COUNTY</b>	County <b>MONTMORENCY</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>6/13/05</b>	Date Accountant Report Submitted to State: <b>6/16/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943 as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1997 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <b>THOMAS R ZICK CPA, P C</b>			
Street Address <b>P O BOX 149</b>	City <b>LEWISTON</b>	State <b>MI</b>	ZIP <b>49756</b>
Accountant Signature 		Date <b>6/16/05</b>	

**MONTMORENCY COUNTY  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2004**

# MONTMORENCY COUNTY

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**Thomas R. Zick CPA, P.C.**  
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## INDEPENDENT AUDITOR'S REPORT

June 13, 2005

Board of Commissioners  
Montmorency County  
Atlanta, Michigan 49709

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Montmorency, Michigan management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, based on my audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the County has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of January 1, 2004.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Montmorency, Michigan basic financial statements. The introductory section, and combining non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund financial statements have been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, based on my audit, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, I have also issued my report dated June 13, 2005 on my consideration of Montmorency County's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA, P.C." in a cursive style.

THOMAS R. ZICK CPA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT

# **MONTMORENCY COUNTY, MICHIGAN**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Montmorency County, we offer readers of the Montmorency County financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended December 31, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **Financial Highlights**

The assets of Montmorency County governmental funds exceed its liabilities at the close of fiscal year, 2004 by \$5,091,128. Of this amount \$2,793,921 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- \* At December 31, 2004, the County's governmental funds reported combined ending fund balances of \$3,089,812.
- \* At December 31, 2004, unreserved fund balance for the General Fund was \$321,913 or 10.2% of General Fund expenditures.
- \* Governmental funds revenues were \$ 5,630,830.
- \* Total long-term debt in the Governmental Activities was \$800,00 at December 31, 2004
- \*

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the County financial statements. The County basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS.** The *government-wide financial statements* are designed to provide readers with a broad overview of the County finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows: Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g. accrued interest expense).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the County include legislative, judicial, general government, public safety, public works, health and welfare, and recreation and culture. The business-type activities of the County include delinquent property tax collection and landfill operation which is reported as a component unit.

The government-wide financial statements include not only the County itself (known as the primary government), but also legally separate component units for which the County is financially accountable. Financial information for the component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 9-11 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

**FUND FINANCIAL STATEMENTS.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*GOVERNMENTAL FUNDS.* Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County maintains 32 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the general fund, considered to be the major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the County's major fund.

The basic governmental fund financial statements can be found on pages 12-15 of this report.

*Proprietary Funds.* The County maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its medical care facility, delinquent taxes.

The basic proprietary fund financial statements can be found on pages 16-18 of this report.

*Fiduciary Funds.* Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 19 of this report.

**NOTES TO THE FINANCIAL STATEMENTS.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-44 of this report.

**OTHER INFORMATION.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statement. Combining statements and schedules can be found on pages 54-65 of this report.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceed liabilities by \$5,091,128 at the close of the most recent fiscal year. A large portion of the County's net assets reflects its investment in capital assets (e.g. land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens, consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. At December 31, 2004 the County had \$800,000 in debt associated with its governmental fund capital assets.

Since this is the first year the County has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to calendar year 2003 is not available. Comparisons will be shown in future periods.

#### MONTMORENCY COUNTY NET ASSETS

	Governmental Activities	Business-type Activities	Total
Current and Other Assets	\$ 4,127,899	\$ 2,037,064	\$ 6,164,963
Capital assets	<u>1,993,004</u>	<u>-0-</u>	<u>1,993,004</u>
Total Assets	<u>6,120,903</u>	<u>2,037,064</u>	<u>8,157,967</u>
Long-Term Liabilities	800,000 -	-0-	800,000
Other liabilities	<u>2,231,091</u>	<u>35,748</u>	<u>2,266,839</u>
Total Liabilities	<u>3,031,091</u>	<u>35,748</u>	<u>3,066,839</u>
Net Assets:			
Invested in Capital Assets			
Net of Debt	1,193,004	-0-	1,193,004
Restricted	1,090,541	13,662	1,104,203
Unrestricted	<u>806,267</u>	<u>1,987,654</u>	<u>2,793,921</u>
Total Net Assets	<u>\$ 3,089,812</u>	<u>\$ 2,001,316</u>	<u>\$ 5,091,128</u>

The County uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Investment in capital assets, net of related debt, is 23% of total net assets. An additional portion of the County's net assets (22%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets are those net assets that have constraints placed on them by either: a)externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b)imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. All such assets (except for assets invested in capital assets, net of related debt) are considered restricted or unrestricted. The unrestricted portion of the County's net assets is 55% of net assets. These net assets may be used to meet the government's ongoing obligations to citizens and creditors.



**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)****MONTMORENCY COUNTY  
CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenue			
Program Revenue			
Charges for Services	\$ 1,256,787	\$ 139,231	\$ 1,396,018
Operating Grants and Contributions	962,712	-	962,712
Capital Grants	94,261	-	94,261
General Revenue			
Property Taxes	3,128,098	-	3,128,098
Other	188,972	35,059	224,031
Total Revenue	<u>5,630,830</u>	<u>174,290</u>	<u>5,805,120</u>
Expenses			
Legislative	167,097	-	167,097
Judicial	633,056	-	633,056
General Government	1,125,739	-	1,125,739
Public Safety	1,767,750	-	1,767,750
Health and Welfare	685,075	-	685,075
Recreation and Culture	257,586	-	257,586
Interest on Debt	42,975	-	42,975
Delinquent Property Tax	-	1,047	1,047
Total Expenses	<u>4,679,278</u>	<u>1,047</u>	<u>4,680,325</u>
Increase in Net Assets Before Transfer	951,552	173,243	1,124,795
Transfer	9,150	(9,150)	-
Increase in Net Assets	<u>960,702</u>	<u>164,093</u>	<u>1,124,795</u>
Net Assets - Beginning of Year	<u>2,129,110</u>	<u>1,837,223</u>	<u>3,966,333</u>
Net Assets - End of Year	<u>\$ 3,089,812</u>	<u>\$ 2,001,316</u>	<u>\$ 5,091,128</u>

**Governmental Activities**

Governmental activities increased the County's net assets by \$960,702 accounting for 85.4% of the total growth in the County's net assets. The main reasons for the change in fund balances and the change in net assets are capital outlays in the current year which are expensed under the modified accrual method are carried as fixed assets under full accrual, and the principal payments on debt that is expensed under the modified accrual method is booked as a reduction in long-term debt under full accrual. In addition, the new fund, Revenue Sharing Reserve set up by the State of Michigan, generated \$617,152 in additional Net Assets.

Government activities include:

- \* Legislative activities – Expenditures related to the Board of Commissioners and high-level administrative expenditures.
- \* Judicial activities– Expenditures related to the administration of Circuit, District, and Probate/Family Courts and Court Probation units.
- \* General government activities – Expenditures related to the support department of the County such as Administration, Equalization, Treasury, Facilities Management, Finance, and Other.
- \* Public Safety – Expenditures related to the Sheriff's administration and road patrol and County corrections services.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

- \* Health and Welfare – Expenditures related to public health services, child care, medical examiner, programs for seniors, and housing assistance programs.
- \* Recreation and Culture – Expenditures related to County library.

### **Business-type activities**

The business-type activities of the County include proprietary operations.

Business-type activities increased the County's net assets by \$164,093 or 14.6% of the growth in net assets. The increase in the business-type activities' net assets was generated through interest and penalties on delinquent property taxes and interest earned on deposits in the Delinquent Tax Revolving Fund.

Business-type activities include:

- \* Delinquent tax revolving fund – This fund was established as a means to provide the local governments within the County's jurisdiction with 100% of the property tax distributions owed to them annually. The County then acts as the collection agency for the outstanding delinquent taxes.

### **Financial Analysis of the Government's Funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County governmental fund statements is to provide information non near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Unreserved fund balance represented 19% of annual government expenditures in 2004 in the governmental funds.

The General fund balance decreased by \$36,990 from \$358,903 to \$321,913 during 2004 due to growth of general fund revenue by .93% while expenditures grew by 5.1%. Expenditure growth was highest in general government and judicial services. Unreserved fund balance of \$321,913 is available for spending at the County's discretion.

Proprietary funds. The County proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

<u>Proprietary Fund</u>	<u>2004 Unrestricted Net Assets.</u>
Enterprise Funds	
100% Tax Payment Fund	\$ 1,987,654

Other factors considering the finances of these funds have been addressed in the discussion of the County's business-type activities.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

### **General Fund Budgetary Highlights**

Amended budgetary expenditures differed from the originally adopted budget mainly for the following reasons:

#### **Revenues:**

Treasurer services were decreased by	\$	50,000
Register of Deeds services were decreased by		40,000

#### **Expenses:**

District Court was increased by	9,855
Probate Court was decreased by	7,100
General Services were decreased by	192,755
Public Safety was increased by	73,222
Other – Miscellaneous was decreased by	55,170

### **Capital Asset and Debt Administration**

Capital Assets – A capital asset is an asset whose cost exceeds \$400 and useful life is greater than two years. Included in the cost of a capital asset are items such as labor and freight and any other costs associated with bringing the asset into full operation. Assets are depreciated using the straight-line method over the course of their useful lives.

The County currently has long-term debt totaling \$800,000 which is a reduction of \$50,000 from 2003.

### **Economic Factors and Next Year's Budgets and Rates**

The taxable value of commercial, residential, and personal property increase 5.35% from 2003 to 2004. This growth is expected to continue.

Montmorency county has seen their revenues increase on a very limited basis while expenses increased at a higher percentage. The County anticipates slow economic growth to continue throughout 2005 and 2006.

### **Requests for Information**

This financial report is designed to provide a general overview of the County finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be referred to the Montmorency County Treasurer, P.O. Box 789, Atlanta MI 49709.

MONTMORENCY COUNTY  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

	Primary Government			Component Unit	Component Unit
	Governmental Activities	Business-type Activities	Total	Road Commission	Landfill Authority
<b>ASSETS</b>					
Cash demand and time deposits	\$ 1,206,732	\$ 891,209	\$ 2,097,941	\$ 277,936	\$ 25,408
Investments	548	762,394	762,942	-	1,407,770
Restricted cash	-	-	-	-	1,160,403
Restricted investments	-	-	-	-	644,508
Receivables					
Accounts	21,900	-	21,900	190	179,271
Current tax	2,524,896	-	2,524,896	-	-
Delinquent tax	-	304,355	304,355	-	-
Interest and penalties	-	79,106	79,106	-	11,432
Other governments	212,390	-	212,390	362,631	-
Mortgages/Notes	161,433	-	161,433	-	-
Prepaid items and other assets	-	-	-	26,283	4,004
Inventory	-	-	-	190,668	-
Capital assets					
Land & land improvements	88,440	-	88,440	-	164,561
Other capital assets, net of depreciation	1,904,564	-	1,904,564	12,120,498	1,829,880
<b>TOTAL ASSETS</b>	<b>6,120,903</b>	<b>2,037,064</b>	<b>8,157,967</b>	<b>12,978,206</b>	<b>5,427,237</b>
<b>LIABILITIES</b>					
Account payable	91,855	-	91,855	24,929	32,055
Accrued liabilities	66,890	-	66,890	47,123	18,738
Due to other governments	29,655	35,748	65,403	-	-
Advance from other governments	-	-	-	-	-
Deferred revenue	1,972,931	-	1,972,931	-	-
Noncurrent liabilities:					
Accrued compensated absences	69,760	-	69,760	215,681	-
Due within one year	50,000	-	50,000	85,000	274,439
Due in more than one year	750,000	-	750,000	837,260	791,002
Estimated liability for landfill closure and post closure care costs	-	-	-	-	3,260,937
<b>TOTAL LIABILITIES</b>	<b>3,031,091</b>	<b>35,748</b>	<b>3,066,839</b>	<b>1,209,993</b>	<b>4,377,171</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	1,193,004	-	1,193,004	11,198,238	929,000
Restricted for:					
Debt Service	1,728	-	1,728	-	-
Capital Projects	8,438	-	8,438	-	-
Central Dispatch/911	167,145	-	167,145	-	-
County Library	97,868	-	97,868	-	-
Register of Deeds Automation	872	-	872	-	-
Construction Code Enforcement	56,031	-	56,031	-	-
Other	141,307	13,662	154,969	-	-
Revenue Sharing Reserve	617,152	-	617,152	-	-
County Roads	-	-	-	569,975	-
Unrestricted	806,267	1,987,654	2,793,921	-	121,066
<b>TOTAL NET ASSETS</b>	<b>\$ 3,089,812</b>	<b>\$ 2,001,316</b>	<b>\$ 5,091,128</b>	<b>\$ 11,768,213</b>	<b>\$ 1,050,066</b>

See Notes to Financial Statements

MONTMORENCY COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government</b>					
Governmental Activities					
Legislative	\$ 167,097	\$ -	\$ -	\$ -	\$ (167,097)
Judicial	633,056	235,324	204,676	-	(193,056)
General Government	1,125,739	346,295	160,645	-	(618,799)
Public Safety	1,767,750	642,457	250,367	94,261	(780,665)
Public Works	-	-	-	-	-
Health and Welfare	685,075	30,880	282,491	-	(371,704)
Recreation and Culture	257,586	1,831	64,533	-	(191,222)
Interest on Debt	42,975	-	-	-	(42,975)
Total Governmental Activities	4,679,278	1,256,787	962,712	94,261	(2,365,518)
Business-type Activities					
Delinquent Property Tax	1,047	139,231	-	-	138,184
Total Business-type Activities	1,047	139,231	-	-	138,184
Total Primary Government	\$ 4,680,325	\$ 1,396,018	\$ 962,712	\$ 94,261	\$ (2,227,334)
<b>Component Unit</b>					
Road Commission	\$ 2,547,614	\$ 39,414	\$ 2,852,461	\$ 172,368	\$ 516,629
Landfill Authority	1,409,072	1,706,026	-	-	296,954
Total Component Units	\$ 3,956,686	\$ 1,745,440	\$ 2,852,461	\$ 172,368	\$ 813,583

(Continued)

See Notes to Financial Statements

MONTMORENCY COUNTY  
STATEMENT OF ACTIVITIES (Concluded)  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Government			Component Unit	Component Unit
	Governmental Activities	Business-type Activities	Total	Road Commission	Landfill Authority
<b>Changes in net assets</b>					
Net (expense) revenue	\$ (2,365,518)	\$ 138,184	\$ (2,227,334)	\$ 516,629	\$ 296,954
General revenues:					
Property taxes	3,128,098	-	3,128,098	-	-
Convention tax	49,021	-	49,021	-	-
Cigarette tax	5,932	-	5,932	-	-
State shared revenue not restricted to specific programs	91,467	-	91,467	-	-
Unrestricted investment earnings	33,205	35,059	68,264	9,707	83,165
Rents	9,347	-	9,347	-	-
Sales of capital assets	-	-	-	4,005	-
Transfers - internal activities	9,150	(9,150)	-	-	-
Total general revenues, contributions and transfers	3,326,220	25,909	3,352,129	13,712	83,165
Change in net assets	960,702	164,093	1,124,795	530,341	380,119
Net assets, beginning of year	2,129,110	1,837,223	3,966,333	11,237,872	669,947
<b>Net assets, end of year</b>	<b>\$ 3,089,812</b>	<b>\$ 2,001,316</b>	<b>\$ 5,091,128</b>	<b>\$ 11,768,213</b>	<b>\$ 1,050,066</b>

See Notes to Financial Statements

MONTMORENCY COUNTY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	MAJOR FUNDS			OTHER NONMAJOR FUNDS	TOTAL
	GENERAL FUND	REVENUE SHARING RESERVE	LIBRARY		
ASSETS					
Cash	\$ 180,180	\$ -	\$ 102,822	\$ 923,730	\$ 1,206,732
Investments	548	-		-	548
Receivables					
Taxes	1,390,900	695,450	240,387	198,159	2,524,896
Accounts	305	-		21,595	21,900
Note	17,948	-		143,485	161,433
Due From Other Funds	149,298	-		-	149,298
Due From Other Governmental Units	70,503	-		141,887	212,390
TOTAL ASSETS	<u>\$ 1,809,682</u>	<u>\$ 695,450</u>	<u>\$ 343,209</u>	<u>\$ 1,428,856</u>	<u>\$ 4,277,197</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts Payable	\$ 57,258	\$ -	\$ 160	34,437	\$ 91,855
Accrued Liabilities	39,611	-	4,794	11,966	56,371
Due to Other Funds	-	78,298	-	71,000	149,298
Due to Other Governmental Units	-	-	-	29,655	29,655
Deferred Revenue	1,390,900	-	240,387	341,644	1,972,931
TOTAL LIABILITIES	<u>1,487,769</u>	<u>78,298</u>	<u>245,341</u>	<u>488,702</u>	<u>2,300,110</u>
FUND BALANCES					
Reserved	-	617,152	97,868	375,521	1,090,541
Unreserved	321,913	-	-	564,633	886,546
TOTAL FUND BALANCES	<u>321,913</u>	<u>617,152</u>	<u>97,868</u>	<u>940,154</u>	<u>1,977,087</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,809,682</u>	<u>\$ 695,450</u>	<u>\$ 343,209</u>	<u>\$ 1,428,856</u>	<u>\$ 4,277,197</u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets of  
Governmental Activities on the Statement of Net Assets  
DECEMBER 31, 2004

Fund Balances - Total Governmental Funds	\$1,977,087
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital Assets - at Cost	3,118,318
Accumulated Depreciation	(1,125,314)

Accrued interest on bonds payable is not included as a liability in the funds	(10,519)
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Long Term Debt - bonds payable not due and payable in current period and is not reported in the funds	(800,000)
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Vested employee Benefits Payable are not due and payable in the current period and are not reported in the funds	<u>(69,760)</u>
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Net Assets of Governmental Activities	<u><u>\$3,089,812</u></u>
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See Notes to Financial Statements



MONTMORENCY COUNTY  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	MAJOR FUNDS			OTHER - NONMAJOR FUNDS	TOTAL
	GENERAL FUND	REVENUE SHARING RESERVE	LIBRARY		
REVENUES					
Taxes	\$ 2,108,384	\$ 695,450	\$ 222,630	\$ 101,634	\$ 3,128,098
Licenses and Permits	9,787	-	-	177,063	186,850
Intergovernmental Revenue:					
Federal	63,664	-	-	280,735	344,399
State	330,415	-	22,288	310,520	663,223
Other Local Units	-	-	-	15,000	15,000
Charges for Services	778,596	-	-	288,525	1,067,121
Fines and Forfeits	8,787	-	42,245	2,000	53,032
Interest and Rents	38,388	-	3,315	849	42,552
Other Revenue	102,481	-	1,831	26,243	130,555
<b>TOTAL REVENUES</b>	<b>3,440,502</b>	<b>695,450</b>	<b>292,309</b>	<b>1,202,569</b>	<b>5,630,830</b>
EXPENDITURES					
Current					
Legislative	167,097	-	-	-	167,097
Judicial	602,192	-	-	8,258	610,450
General Government	1,009,737	-	-	76,946	1,086,683
Public Safety	1,130,683	-	-	582,016	1,712,699
Public Works	-	-	-	-	-
Health and Welfare	179,797	-	-	479,314	659,111
Recreation and Cultural	11,815	-	242,842	-	254,657
Capital Outlay	54,222	-	62,416	77,752	194,390
Debt Service:					
Principal	-	-	-	50,000	50,000
Interest and Other Charges	-	-	-	43,600	43,600
<b>TOTAL EXPENDITURES</b>	<b>3,155,543</b>	<b>-</b>	<b>305,258</b>	<b>1,317,886</b>	<b>4,778,687</b>
REVENUES OVER (UNDER) EXPENDITURES	284,959	695,450	(12,949)	(115,317)	852,143
OTHER FINANCING SOURCES (USES)					
Transfers In	94,058	-	-	416,007	510,065
Transfers (Out)	(416,007)	(78,298)	-	(6,610)	(500,915)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(321,949)</b>	<b>(78,298)</b>	<b>-</b>	<b>409,397</b>	<b>9,150</b>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(36,990)	617,152	(12,949)	294,080	861,293
FUND BALANCES, BEGINNING OF YEAR	358,903	-	110,817	646,074	1,115,794
FUND BALANCES, END OF YEAR	\$ 321,913	\$ 617,152	\$ 97,868	\$ 940,154	\$ 1,977,087

See Notes to Financial Statements

MONTMORENCY COUNTY  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
DECEMBER 31, 2004

Net Change in Fund Balances - Total Governmental Funds	\$861,293
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	194,390
Deduct - Depreciation Expense	(141,306)

Revenues in the statement of activities that do not provide current resources are not reported as fund revenues

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add - Principal Payments on Long-Term Liabilities	50,000
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Accrued interest on bonded debt does not require the current use of financial resources and is not reported as an expenditure in the fund statement

Add: decrease in accrued interest payable	625
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Vested employee benefits payable do not require the current use of financial resources and are not reported as expenditures in the fund statement

Deduct - Increase in vested employee benefits	<u>(4,300)</u>
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Change in Net Assets of Governmental Activities	<u><u>\$960,702</u></u>
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See Notes to Financial Statements

MONTMORENCY COUNTY  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 DECEMBER 31, 2004

	<u>100% TAX PAYMENT</u>
ASSETS	
Current Assets	
Cash	\$ 891,209
Investments	762,394
Receivables:	
Taxes	304,355
Interest and Penalties on Taxes	<u>79,106</u>
TOTAL ASSETS	<u>2,037,064</u>
LIABILITIES	
Due to Other Governments	<u>\$ 35,748</u>
TOTAL LIABILITIES, ALL CURRENT	<u>35,748</u>
NET ASSETS	
Unrestricted net assets	1,987,654
Restricted net assets	<u>13,662</u>
TOTAL NET ASSETS	<u><u>\$ 2,001,316</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES  
 AND CHANGES IN NET ASSETS  
 DECEMBER 31, 2004

	ENTERPRISE FUND <u>100% TAX PAYMENT</u>
OPERATING REVENUES	
Interest and Penalties on Taxes	\$ 85,479
Charges for Services	<u>53,752</u>
TOTAL OPERATING REVENUES	<u>139,231</u>
OPERATING EXPENSES	
Other Expenses	<u>1,047</u>
TOTAL OPERATING EXPENSES	<u>1,047</u>
OPERATING INCOME (LOSS)	138,184
NONOPERATING REVENUES (EXPENSES)	
Interest Earned on Investments	35,059
Residual Equity Transfer	<u>(9,150)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>25,909</u>
NET INCOME (LOSS)	164,093
NET ASSETS, BEGINNING OF YEAR	<u>1,837,223</u>
NET ASSETS, END OF YEAR	<u><u>\$ 2,001,316</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 2004

	ENTERPRISE FUND 100% TAX PAYMENT
Cash Flows from Operating Activities:	
Cash received from taxpayers - penalties and interest on delinquent taxes	\$ 126,392
Cash received from taxpayers - delinquent taxes	870,894
Purchase of delinquent taxes	(893,949)
Cash payments for goods and services	<u>(1,047)</u>
Net Cash Provided (Used) by Operating Activities	<u>102,290</u>
Cash Flows from Capital and Related Financing Activities:	
Residual Equity Transfer	(9,150)
Due to Other Governmental Units	<u>35,748</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>26,598</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>35,059</u>
Net Cash Provided by Investing Activities	<u>35,059</u>
Net Increase (Decrease) in Cash and Cash Equivalents	163,947
Cash and Cash Equivalents, Beginning of Year	<u>1,489,656</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,653,603</u></u>
Operating Income (Loss)	\$ 138,184
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
(Increase) Decrease in Receivables	<u>(35,894)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 102,290</u></u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
STATEMENT OF FIDUCIARY FUND NET ASSETS  
AGENCY FUNDS  
DECEMBER 31, 2004

ASSETS

Cash	\$ 513,424
<u>TOTAL ASSETS</u>	<u>\$ 513,424</u>

LIABILITIES

Due to Other Governmental Units	\$ (17,913)
Undistributed Collections	357,155
Other Liabilities	<u>174,182</u>
<u>TOTAL LIABILITIES</u>	<u>\$ 513,424</u>

See Notes to Financial Statements

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the County conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**DESCRIPTION OF COUNTY OPERATIONS AND FUND TYPES**

The County was organized in 1881 and covers an area of approximately 550 square miles with the County seat located in Atlanta, Michigan. The County operates under an elected Board of Commissioners of five (5) members and provides services, assistance and care to its more than 10,000 residents, primarily from the operations of its General Fund and Special Revenue Funds. The County's services, assistance and care includes the (1) general county departments, boards and commissions; (2) court system administration; (3) law enforcement and corrections; (4) assistance and/or institutional care to the aged, needy, wards of the court and neglected children, public and mental health recipients; (5) libraries; (6) recreation, and (7) road construction and maintenance.

**REPORTING ENTITY** - The financial statements of certain governmental organizations are not included in the financial statements of the County: (1) Education services which are provided to citizens through the several local school districts which are separate governmental entities.

The Governmental Accounting Standards Board (GASB) in its issuance of Statement 14 "The Financial Reporting Entity" and the State of Michigan Department of Treasury established criteria for governmental organizations to be considered to be part of the County for financial reporting purposes. The criteria included oversight responsibility, fiscal dependency and whether the statements would be misleading if data was not included.

**DISCRETELY PRESENTED COMPONENT UNITS**

**COUNTY ROAD COMMISSION** - The County Road Commission is considered a component unit of the County. Its financial statement is discretely presented in the County Combined financial Statements as required by accounting principles generally accepted in the United States of America as revised under GASB 14. The Road Commission is presented discretely as a governmental fund type. This data is reported in a separate column to emphasize that the Road Commission does have an elected Road Commission and for the most part operates separate from the overall County. Complete financial statements can be obtained directly from the Road Commission office at 11445 M-32, Atlanta, Michigan 49709.

**SOLID WASTE MANAGEMENT AUTHORITY** - The Montmorency-Oscoda-Alpena Solid Waste Management Authority was incorporated during 1998, with by-laws adopted effective August 5, 1998. The Authority is the successor entity to a joint venture between Montmorency and Oscoda Counties and is considered a component unit of Montmorency County which, under GASB #14 is discretely presented as a proprietary(enterprise) fund type. The Authority was incorporated under the provisions of Act No. 233 of 1955 and was created by the counties of Montmorency, Oscoda, and Alpena. The registered office is the Office of the Treasurer of Montmorency County. Each entity appoints two representatives to the Authority Board, one of whom shall be a member of the legislative body of the municipality. The other appointed individual may, but need not be a member of the legislative body of the municipality.

The Authority articles of incorporation specifically stated its intention to assume the assets and liabilities of the joint venture between Montmorency and Oscoda County. In the event of dissolution the assets of the Authority shall be sold and the balance equally divided among the municipalities.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The employees of the Authority participate in all of the fringe benefit programs that Montmorency county employees are offered and information shown in subsequent notes to these financial statements cover Authority Board employees along with the general county employees except for the pension plan. During 2003 the Authority established its own pension account with MERS.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are charged based upon a countywide cost allocation plan, which allocates costs based upon the number of full time equivalents, number of transactions, and other pertinent information. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of the year for which they were levied, the Delinquent Tax Revolving Fund pays the County for any outstanding taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered to be available when all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the County.



MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The County reports the following major governmental funds:

GENERAL FUND This fund is the County's the primary general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

REVENUE SHARING RESERVE FUND – This fund was established by the State of Michigan during 2004 as a result of legislation that in effect shifted an obligation formerly funded by the State to the local taxpayers by levying taxes sooner.

LIBRARY - This fund operates the county library with locations in Atlanta, Hillman, and Lewiston. Its largest source of revenue is property taxes.

The County reports the following major enterprise fund:

DELINQUENT PROPERTY TAX FUND – This fund is used to pay each local governmental unit, including the County General Fund, the respective amount of taxes not collected as of March 1 of each year. Financing is provided by subsequent collection of delinquent property taxes by the County Treasurer.

Additionally, the County reports the following fund types:

SPECIAL REVENUE FUNDS - These funds are used to account for specific revenues derived primarily from sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

DEBT SERVICE FUNDS – account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of the Building Authority.

CAPITAL PROJECTS FUNDS - The Capital Projects Funds are used to account for the acquisition or construction of major capital facilities other than those financed by enterprise funds or special assessments.

AGENCY FUNDS – are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private-sector guidelines.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are interest and penalties on delinquent taxes and charges for services provided. The principal operating revenues of the County's internal service funds are charges to County departments for equipment amortization and insurance coverage. Operating expenses for the enterprise funds consist of administrative expenses. Operating expenses for the internal service funds include the cost of services (including claims), administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

**BUDGETS AND BUDGETARY ACCOUNTING**

**PRIMARY GOVERNMENT**

A budget is adopted by the Board of Commissioners in accordance with Michigan Public Act 621 of 1978, the Uniform Budgeting and Accounting Act, for the general and special revenue funds. The Board amends the budget as necessary during the year. The budget is adopted on the modified accrual basis of accounting consistent with the actual financial statements for these funds. The budget is adopted at the activity level and control is exercised at the activity level for the General Fund and Special Revenue Funds. All budget appropriations lapse at the end of each fiscal year.

The County does not use encumbrances in its accounting system.

**DISCRETELY PRESENTED COMPONENT UNIT – ROAD COMMISSION**

Budgetary procedures are established pursuant to Michigan Public Act 621, PA 1978, as amended, (MCL 141.421) which requires the County Board of Road Commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the Board of Road commissioners for its review and consideration. The budget is amended as necessary during the year, and is approved by the Board. The budget is prepared on the modified accrual basis of accounting, which is the same basis utilized for the fund financial statements.

**ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY**

**BANK DEPOSITS AND INVESTMENTS** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair market value.

**RECEIVABLES AND PAYABLES** – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

**CURRENT PROPERTY TAX LEVY** - The County property tax is levied as of December 1 on the state equalized valuation of property located in the County as of the preceding December 31 and attach an enforceable lien on the property. Although the County's 2004 property taxes are levied and collectable on December 1, 2004, it is the County's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of County operations. Current property taxes from the December 1 levy, which are received prior to December 31, are normally held in the County's Trust and Agency Fund. It is the County's policy, through its 100% Tax Payment Fund, to purchase delinquent real property taxes and special assessments each year to afford 100% collection of the current levy to the local taxing unit.

**MONTMORENCY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2004**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The 2004 taxable value of Montmorency County amounted to \$400,645,443 on which 5.2159 mills were levied for County operating purposes and .4946 mills for Commission on Aging operations and .6000 mills for County Library operations. The 2004 current tax levies of \$1,390,900 for County operations, \$695,450 for Revenue Sharing Reserve, \$198,159 for Commission on Aging operations, and \$240,387 for Library Fund operations are recorded in the General Fund, the Commission on Aging Special Revenue Fund, the County Library Fund and the Revenue Sharing Reserve Fund financial statements as taxes receivable with an offsetting credit to deferred revenue in all but the Revenue Sharing Reserve Fund.

TAXES RECEIVABLE - DELINQUENT - The taxes receivable of \$304,355 which are recorded in the Enterprise 100% Tax Payment Fund, consist of the unpaid delinquent real property taxes which were purchased from all of the taxing units in Montmorency County by the County's 100% Tax Payment Fund.

INVENTORIES AND PREPAID ITEMS ROAD COMMISSION (COMPONENT UNIT) – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statement.

CAPITAL ASSETS – Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the activities column in the government-as assets with an initial individual cost of more than \$400 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	8 to 50 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

DEFERRED REVENUE – Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned.

LONG-TERM OBLIGATIONS - In the government-wide financial statements and proprietary fund type statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, material bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt used is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY - In the fund financial statements, governmental and business-type funds report reservations of fund balance for amounts that are not are legally restricted for use for a specific purpose.

ACCOUNTING CHANGE - Effective January 1, 2004 the County implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB No.34)*, along with all related statements and interpretations. Changes to the County's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD & A) section providing analysis of the County's overall financial position and results of operations has been included.

Basic financial statement (statement of net assets and statement of activities) prepared using full accrual accounting for the governmental funds has been provided.

Capital assets in the statement of net assets includes assets totaling \$1,993,004 not previously accounted for by the County in its governmental funds.

The statement would also include bonds and other long-term obligations reported in the General Long-Term Debt Account Group.

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS / FUND DEFICITS**

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. The approved budgets of the County for all budgetary funds were adopted at the department (activity) levy.

PRIMARY GOVERNMENT

During the year ended December 31, 2004 expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund and special revenue fund types of the primary government as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General:			
Capital Outlay	\$ 51,610	\$ 54,222	\$ (2,612)
Special Revenue:			
Truancy	\$ -0-	\$ 510	\$ (510)
Revenue Sharing Reserve	\$ -0-	\$ 78,298	\$ (78,298)

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 3 - CASH AND INVESTMENTS**

The captions on the accompanying balance sheet related to cash and investments are as follows:

	<u>Cash/Checking and Savings</u>	<u>Investments</u>	<u>Total</u>
Primary Government			
Government Activities	\$ 1,206,732	\$ 548	\$ 1,207,280
Business-type Activities	891,209	762,394	1,653,603
Agency Funds	513,424	-	513,424
Component Unit			
Road Commission	277,936	-	277,936
Landfill Authority	1,185,811	2,052,278	3,238,089
	<u>\$ 4,075,112</u>	<u>\$ 2,815,220</u>	<u>\$ 6,890,332</u>

Deposits - At year-end, the carrying amount of the County's deposits was \$4,010,326 and the bank balance of \$4,163,936 was classified as to risk as follows:

Insured	\$ 596,191
Uninsured – Uncollateralized	3,567,745
	<u>\$ 4,163,936</u>

Investments - Act 217, PA 1982, authorized the County to deposit and invest in the following:

- (a) bonds, securities and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings and accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State and maintains a principal office or branch office in Michigan.
- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds properly registered with the State of Michigan, composed of investments which are legal for direct investments by local units of government in Michigan.

The County's investments are detailed below to give an indication of the level of risk assumed by the County at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the County's name.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

The investments owned by Montmorency County as of December 31, 2004 are listed as follows:

Mutual Funds:

Bank One Governmental Money Market Fund	\$ 1,887
National City Bank Municipal Investment Fund	2,168,825
Dreyfus Money Market Fund	<u>644,508</u>
Total Mutual Funds and Total Investments	<u>\$ 2,815,220</u>

The Bank One Governmental Money Market Fund, Dreyfus Money Market Fund and National City Bank Municipal Investment Fund were the County's share of investment pools which were made up of U.S. Treasury, Agencies, and instrumentalities, commercial paper, bankers' acceptances, repurchase agreements and reverse repurchase agreements which were not in the name of the County. They are not required to be categorized under GASB #3.

The certificates of deposit in the Component Unit - Solid Waste Management Authority amounting to \$1,160,403 and the investments of \$644,508 were placed into an escrow account at National City Bank under the direction of the Director of the Michigan Department of Environmental Quality. The director of the Department is the beneficiary on the escrow account. The escrow account was established to hold the investments/cash accounts. All earnings must accrue to the escrow account. The Director must approve any disbursements from the account which assures that monitoring of the landfill site will have sufficient funds if needed in future years.

**NOTE 4 – RECEIVABLES / DEFERRED REVENUE**

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	Revenue Sharing <u>Reserve Fund</u>	Library And Other <u>Nonmajor Funds</u>	<u>Total</u>
Taxes Receivable	\$ 1,390,900	\$695,450	\$438,546	\$2,524,896
Accounts	305	0	21,595	21,900
EDC Loans	0		143,485	143,485
Intergovernmental	<u>88,451</u>	<u>0</u>	<u>141,887</u>	<u>230,338</u>
Net Receivables	<u>\$1,479,656</u>	<u>\$695,450</u>	<u>\$745,513</u>	<u>\$2,920,619</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent Property Taxes	\$1,829,446	\$0	\$1,829,446
EDC Loans		<u>143,485</u>	<u>143,485</u>
Total	<u>\$1,829,446</u>	<u>\$143,485</u>	<u>\$1,972,931</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
Due To/From Other Funds			
General	\$ 149,298	Revenue Sharing Reserve	\$ 79,298
		Other Non-Major Funds	71,000
Total	<u>\$ 149,298</u>		<u>\$ 149,298</u>

**Interfund Transfers**

	<u>Operating Transfer In</u>	<u>Operating Transfer Out</u>	<u>Total</u>
Transfers In			
General Fund	\$ 94,058	\$ 416,007	\$ (321,949)
Revenue Sharing Reserve Fund	-	78,298	(78,298)
Non-Major Governmental Funds	416,007	6,610	409,397
Proprietary Funds	<u>-0-</u>	<u>9,150</u>	<u>(9,150)</u>
Total	<u>\$ 510,065</u>	<u>\$ 510,065</u>	<u>\$ -0-</u>

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

	<u>Balance 1/1/04</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/04</u>
Capital assets not being depreciated:				
Land	\$ 81,018	\$ -	\$ -	\$ 81,018
Subtotal	<u>81,018</u>	<u>-</u>	<u>-</u>	<u>81,018</u>
Capital assets being depreciated:				
Buildings	1,744,447	65,600	-	1,810,047
Land Improvements	7,422	-	-	7,422
Equipment	799,674	128,790	-	928,464
Vehicles	291,367	-	-	291,367
Subtotal	<u>2,842,910</u>	<u>194,390</u>	<u>-</u>	<u>3,037,300</u>
Accumulated Depreciation:				
Buildings	533,124	34,292	-	567,416
Land Improvements	-	742	-	742
Equipment	326,957	78,044	-	405,001
Vehicles	123,927	28,228	-	152,155
Subtotal	<u>984,008</u>	<u>141,306</u>	<u>-</u>	<u>1,125,314</u>
Net Capital Assets Being Depreciated	<u>1,858,902</u>	<u>53,084</u>	<u>-</u>	<u>1,911,986</u>
Net Capital Assets	<u>\$ 1,939,920</u>	<u>\$ 53,084</u>	<u>\$ -</u>	<u>\$ 1,993,004</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 6 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
Judicial	\$ 22,606
General government	34,756
Public Safety	81,015
Recreation and Culture	<u>2,929</u>
Total Governmental Activities	<u>\$ 141,306</u>

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION – The following is a summary of changes in Capital Assets

	Balance 1/1/04	Additions	Disposals	Balance 12/31/04
Capital assets not being depreciated:				
Land	\$ 17,476	\$ -	\$ -	\$ 17,476
Infrastructure and Land Improvements	17,476	-	-	17,476
Subtotal	34,952	-	-	34,952
Capital assets being depreciated:				
Buildings	1,995,041	4,337	-	1,999,378
Equipment - Road	2,370,124	105,105	4,000	2,471,229
Equipment - Shop	41,468	-	-	41,468
Equipment - Office	37,411	879	-	38,290
Equipment - Engineering	2,483	4,752	-	7,235
Equipment - Yard & Storage	83,640	-	-	83,640
Infrastructure - Bridges	1,780,242	318,547	-	2,098,789
Infrastructure - Roads	5,769,873	766,086	-	6,535,959
Subtotal	12,080,282	1,199,706	4,000	13,275,988
Accumulated Depreciation:				
Buildings	179,652	62,814	-	242,466
Equipment - Road	1,997,160	138,718	4,000	2,131,878
Equipment - Shop	16,842	4,472	-	21,314
Equipment - Office	21,602	3,850	-	25,452
Equipment - Engineering	2,483	616	-	3,099
Equipment - Yard & Storage	27,940	-	-	27,940
Infrastructure - Bridges	271,939	52,311	-	324,250
Infrastructure - Roads	2,479,297	627,999	-	3,107,296
Subtotal	4,996,915	890,780	4,000	5,883,695
Net Capital Assets Being Depreciated	7,083,367	308,926	-	7,392,293
Net Component Unit Capital Assets	<u>\$ 7,118,319</u>	<u>\$ 308,926</u>	<u>\$ -</u>	<u>\$ 7,427,245</u>



MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 6 - CAPITAL ASSETS (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

Capital asset activity of the Authority for the current year was as follows:

	Balance 1/1/04	Additions	Disposals	Balance 12/31/04
Capital assets not being depreciated:				
Land	\$ 164,561	\$ -	\$ -	\$ 164,561
Capital assets being depreciated:				
Land Improvements/buildings	5,793,659	724,379	-	6,518,038
Equipment	5,793,659	724,379	-	6,518,038
Subtotal	<u>11,587,318</u>	<u>1,448,758</u>	<u>-</u>	<u>13,036,076</u>
Accumulated Depreciation:				
Accumulated Depreciation:	5,006,141	437,756	-	5,443,897
Subtotal	<u>5,006,141</u>	<u>437,756</u>	<u>-</u>	<u>5,443,897</u>
Net Capital Assets Being Depreciated	<u>6,581,177</u>	<u>1,011,002</u>	<u>-</u>	<u>7,592,179</u>
Net Business Type Activities				
Capital Assets	<u>\$ 6,745,738</u>	<u>\$ 1,011,002</u>	<u>\$ -</u>	<u>\$ 7,756,740</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 7 - LONG-TERM DEBT**

Following is a summary of pertinent information concerning the County's long-term debt:

PRIMARY GOVERNMENT

Outstanding Debt Descriptions:

	<u>General County</u>
General Obligation:	
Judicial Annex and Refunding Bonds	\$ 800,000
Compensated absences	<u>69,760</u>
Totals	<u>\$ 869,760</u>

CHANGES IN LONG-TERM DEBT

	<u>General Long-term</u>	<u>Proprietary</u>	<u>Compensated Absences</u>	<u>Total</u>
January 1, 2004	\$ 850,000	\$ -0-	\$ 65,460	\$ 915,460
Additions	-0-	-0-	(1) 4,300	4,300
Reductions	<u>(50,000)</u>	<u>-0-</u>	<u>-0-</u>	<u>(50,000)</u>
December 31, 2004	<u>\$ 800,000</u>	<u>\$ -0-</u>	<u>\$ 69,760</u>	<u>\$ 869,760</u>

(1) Changes in compensated absences are shown as net additions.

GENERAL LONG-TERM DEBT

DESCRIPTION: - Judicial Annex and Refunding General Obligation Bonds - proceeds used to finance the construction of a courthouse addition and to refinance the outstanding correctional facility bonds.

<u>Interest Rates</u>	<u>Maturity Year</u>	<u>Outstanding Principal</u>	<u>12/31/04 Interest</u>
5.00/5.65	2020	<u>\$ 800,000</u>	<u>\$ 345,063</u>
	Total	<u>\$ 1,145,063</u>	

Annual Debt Service Requirements:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 550,000	\$ 800,000
Interest	<u>40,825</u>	<u>38,825</u>	<u>35,825</u>	<u>33,325</u>	<u>30,825</u>	<u>165,938</u>	<u>345,063</u>
Totals	<u>\$ 90,825</u>	<u>\$ 88,825</u>	<u>\$ 85,825</u>	<u>\$ 83,325</u>	<u>\$ 80,825</u>	<u>\$ 715,938</u>	<u>\$1,145,063</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

The construction cost for the courthouse addition was \$660,000 and \$335,000 was needed at issue date to repay the correctional facility bonds. In future years 34% of the payment is being charged to the correctional facility and 66% to general fund operations.

The Montmorency County Building Authority under PA 31 of 1948 borrowed the funds. The County has pledged its full faith and credit under lease agreements with the Building Authority and is obligated to levy each year, to the extent necessary, ad valorem taxes necessary for payment of the leases. The leases provide the Building Authority with sufficient funds to pay the debt obligation.

Compensated Absences

The County policies provide for accumulated vacation, sick and personal days. At December 31, 2004 the accumulated totals were \$69,760 for the three combined.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

<u>Description</u>	<u>1/1/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/04</u>
Installment Loans:				
1999 Ford Trucks	\$ 30,052	\$ -0-	\$ 30,052	\$ -0-
New Holland Tractor/Mower	32,527	-0-	10,267	22,260
Series 2003 Bond Issue	900,000	-0-	-0-	900,000
Compensated Absences	<u>267,652</u>	<u>-0-</u>	<u>(1) 51,971</u>	<u>215,681</u>
Totals	<u>\$ 1,230,231</u>	<u>\$ -0-</u>	<u>\$ 92,290</u>	<u>\$ 1,137,941</u>

(1) Compensated absences are recorded as a net addition or deduction.

Annual Debt Service Requirements for Long-Term Debt:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Other</u>	<u>Total</u>
Principal	\$ 95,832	\$101,428	\$ 95,000	\$ 95,000	\$100,000	\$435,000	\$ 922,260
Interest	<u>29,779</u>	<u>27,058</u>	<u>24,180</u>	<u>21,568</u>	<u>18,955</u>	<u>41,288</u>	<u>162,828</u>
Totals	<u>\$125,611</u>	<u>\$128,486</u>	<u>\$119,180</u>	<u>\$116,568</u>	<u>\$118,955</u>	<u>\$476,288</u>	<u>\$1,085,088</u>

Installment Loans:

In 2002 a New Holland tractor/mower was purchased and financed through New Holland Credit Corp. Annual payments of \$12,055 are due with an interest rate of 5.50%. The loan matures in 2006.

Series 2003 Michigan Transportation Fund Bond Issue

During 2003 \$900,000 was borrowed to assist in reconstruction of the Atlanta facility necessary after the fire which occurred in 2002. The amortization schedule is as follows:

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

	Interest Rate	May 1		November 1	
		Interest	Principal	Interest	Principal
2005	2.50%	14,278	-0-	14,278	85,000
2006	2.50%	13,215	-0-	13,215	90,000
2007	2.75%	12,090	-0-	12,090	95,000
2008	2.75%	10,784	-0-	10,784	95,000
2009	3.10%	9,478	-0-	9,478	100,000
2010	3.35%	7,927	-0-	7,927	105,000
2011	3.55%	6,169	-0-	6,169	105,000
2012	3.75%	4,305	-0-	4,305	110,000
2013	3.90%	2,242	-0-	2,242	115,000
		<u>\$ 80,488</u>	<u>\$ -0-</u>	<u>\$ 80,488</u>	<u>\$ 900,000</u>

Interest rates varied between 2.50% and 3.90% over the life of the Bond Issue.

Compensated Absences

Road Commission policies provide for the payment of vacation, sick and personal days accumulated. Accrued sick pay at December 31, 2004 was \$145,625. Vacation and personal days accumulated created a liability of \$70,056 for a total of \$215,681.

DISCRETELY PRESENTED COMPONENT UNIT - SOLID WASTE MANAGEMENT AUTHORITY

	12/31/03	Additions	Reductions	12/31/04
1999 Bond	\$ 225,000	\$ -0-	\$ 225,000	\$ -0-
2002 Bond	640,000	-0-	150,000	490,000
Lease/Purchase	<u>704,182</u>	<u>-0-</u>	<u>128,741</u>	<u>575,441</u>
Total	<u>\$ 1,569,182</u>	<u>\$ -0-</u>	<u>\$ 503,741</u>	<u>\$ 1,065,441</u>

DESCRIPTION - Series 1999 General Obligation Limited Tax Bonds were issued to construct a cell addition to the landfill. This debt was repaid in 2004. Principal of \$225,000 and interest of \$5,344 was paid.

DESCRIPTION - Series 2002 General Obligation Limited Tax Bonds were issued to be used to finance the cost of a new landfill cell. It is anticipated that revenue from the Authority will be sufficient to repay the bonds as they come due, however, the three counties involved have pledged to levy ad valorem taxes if necessary to repay the bonds.

Year	Interest Rates	Principal	Interest	Total
2005	2.50%	150,000	13,795	163,795
2006	2.80%	165,000	10,045	175,045
2007	3.10%	<u>175,000</u>	<u>5,425</u>	<u>180,425</u>
Total		<u>\$ 490,000</u>	<u>\$ 29,265</u>	<u>\$ 519,265</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

**DESCRIPTION** - In 1999 the Authority purchased a D6 dozer and a 980G wheel loader on finance leases with Caterpillar Financial Services Corporation providing the financing. In 2001 a 627 Caterpillar scraper was purchased with G. E. Credit Company providing the financing. A Bomag compactor was purchased in 2002 with Old National Bank providing the financing. In 2003 the 980G loader was traded on a 980GII loader with CAT Financial providing the lease/financing. The 980G11 contract calls for a balloon payment of \$126,000 on June 20, 2007. The Caterpillar leases call for final payment of \$1 to purchase the equipment after the sixty lease payments are paid. The G. E. Credit lease requires a balloon payment of \$110,000 after 72 monthly payments are made while the Old National Bank lease requires 5 payments beginning in January of 2003. The equipment has been capitalized and the outstanding balances are shown as installment loans in the financial statements. Interest rates vary between 3.75% and 5.75%.

<u>Interest Rates</u>	<u>Outstanding 12/31/04</u>	
	<u>Principal</u>	<u>Interest</u>
3.75/5.75	<u>\$ 575,441</u>	<u>\$ 49,842</u>
Total	<u>\$ 625,283</u>	

Equipment Lease/Purchase Annual Debt Service Requirements:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Principal	\$ 124,439	\$ 130,127	\$ 320,875	\$ 575,441
Interest	<u>23,892</u>	<u>18,205</u>	<u>7,745</u>	<u>49,842</u>
Totals	<u>\$ 148,331</u>	<u>\$ 148,332</u>	<u>\$ 328,620</u>	<u>\$ 625,283</u>

Monthly payments on the equipment are as follows:

980GII wheel loader	\$ 3,031
627 scraper	<u>4,928</u>
	<u>\$ 7,959</u>

Annual payment on  
Bomag compactor is:  
\$ 52,827

Long-Term Debt Annual Debt Service Requirements

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Principal	\$ 274,439	\$ 295,127	\$ 495,875	\$ 1,065,441
Interest	<u>37,687</u>	<u>28,250</u>	<u>13,170</u>	<u>79,107</u>
Total	<u>\$ 312,126</u>	<u>\$ 323,377</u>	<u>\$ 509,045</u>	<u>\$ 1,144,548</u>

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 7 - LONG-TERM DEBT (CONTINUED)**

Long-Term Debt Summary

	<u>2004</u>
2002 General Obligation Limited Tax Bonds	\$ 490,000
1999 General Obligation Limited Tax Bonds	-0-
Installment Loans	<u>575,441</u>
 Total Debt	 1,065,441
Less Current Portion	<u>(274,439)</u>
 Net Long-Term Debt	 <u>\$ 791,002</u>

**NOTE 8 - PENSION PLANS**

PRIMARY GOVERNMENT

Plan Description - Montmorency County participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time County employees are eligible to participate in the system. Benefits vest after ten years of service. General County employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of the members 5-year final average compensation.

Participating General county employees are not required to contribute to the system. The county is required to contribute amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 8 - PENSION PLANS (CONTINUED)**

All entries are based on the actuarial methods and assumption that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. the entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 3,537,065
Terminated employees not yet receiving benefits	413,746
Non-vested terminated employees	455
Current employees:	
Accumulated employee contributions	
including allocated investment income	2,622
Employer financed	<u>2,402,182</u>
Total Actuarial accrued liability	6,356,070
Net Assets Available for Benefits, at actuarial value	
(Market Value is \$3,962,577)	<u>4,339,660</u>
Unfunded (over funded) actuarial accrued liability	<u><u>\$ 2,016,410</u></u>

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	January 1, 2005
Annual required contribution (ARC)	\$ 249,240
Amortization factor used	0.053632

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31, _____</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 209,615	100%	\$ -0-
2002	230,956	100%	-0-
2003	250,067	100%	-0-

The County was required to contribute \$252,528 for the year ended December 31, 2004. Payments were based on contribution calculations made by MERS.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 8 - PENSION PLANS (CONTINUED)**

Actuarial Valuation Date <u>December 31</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL - % Of Covered Payroll
2001	4,063,073	5,302,349	1,239,276	77%	1,562,595	79%
2002	4,204,392	6,239,205	2,034,813	67%	1,455,564	140%
2003	4,339,660	6,356,070	2,016,410	68%	1,415,756	142%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997 and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

The Library fund employees left the MERS plan in May of 2004. They set up a Simplified Employee Pension (SEP) administered by National City Bank and its investment department. This plan is a defined contribution plan. The Library fund is required to contribute 8.9% of the employee wages to the plan. For the period May through December of 2004 \$8,206 was contributed to the plan. The Library does not receive a summary statement. Each employee has their separate account and receives the required statements from the bank.

**DISCRETELY PRESENTED COMPONENT UNIT – ROAD COMMISSION**

Plan Description - Montmorency County Road Commission has established a defined contribution pension plan with the Manulife Financial covering substantially all employees. Participating employees contribute a portion of their compensation annually and the Commission contributes the remaining amounts necessary to fund the plan according to requirements. The Commission is obligated for 5% of an employees base salary computed as of January 1 each year. Covered payroll was \$1,015,960 total payroll was \$1,038,388 for the year. The total contribution to the plan for 2004 was \$50,798.

Funding Status and Progress - Not all of the information required by the Governmental Accounting Standards Board disclosure requirements is included below because the year end reports did not contain the necessary information. The following information was supplied, however.

Account Value at January 1, 2004	\$ 1,111,164
Employer Contributions	50,798
Employee Contributions	53,939
Net Investment Earnings and	
Market Value Increase	123,019
Administrative Fees	(11,631)
Distributions	<u>(182,284)</u>
Total Plan Assets at	
December 31, 2004	<u>\$ 1,145,005</u>



MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 8 - PENSION PLANS (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT LANDFILL AUTHORITY

In previous years the Authority employees were participants in the Montmorency County pension plan. Pension contributions from the Authority for 2003 and 2002 respectively were \$25,222 and \$23,970. In early 2003 the Authority separated their plan from Montmorency County but MERS had not done an actuarial valuation as of December 31, 2003. The December 31, 2003 actuarial report is used in this report. The December 31, 2004 report is not yet available from MERS.

Plan Description – The Authority participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time Authority employees are eligible to participate in the system. Benefits vest after ten years of service. Authority employees who retire at or after age 55 with 15 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.25% of the members 5-year final average compensation.

Participating Authority employees are not required to contribute to the system. The Authority is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by State Statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (c) the assumption that benefits will increase 2.5% annually after retirement.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. the entry age normal actuarial method was used to determine the entries at disclosure.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 8 - PENSION PLANS (CONTINUED)**

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ -0-
Terminated employees not yet receiving benefits	-0-
Non-vested terminated employees	-0-
Current employees:	
Accumulated employee contributions	
including allocated investment income	-0-
Employer financed	193,940
Total Actuarial accrued liability	<u>193,940</u>

Net Assets Available for Benefits, at actuarial value	
(Market Value is \$102,855)	112,643
Unfunded (over funded) actuarial accrued liability	<u>\$ 81,297</u>

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	January 1, 2005
Annual required contribution (ARC)	\$ 23,784
Amortization factor used - Underfunded Liabilities (30 years)	0.053632

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years. The only year available is 2003 because the actuarial valuations for this entity separate from Montmorency County only began for the 2003. year.

Annual Pension Cost

<u>Year</u>	<u>Annual</u>	<u>Percentage</u>	<u>Net</u>
<u>Ended</u>	<u>Pension</u>	<u>Of ARC</u>	<u>Pension</u>
<u>December 31</u>	<u>Cost (ARC)</u>	<u>Contributed</u>	<u>Obligation</u>
2003	\$ 25,222	100%	\$ -0-

The Authority was required to contribute \$23,618 for the year ended December 31, 2004 (based upon Montmorency County valuation). Payments were based on contribution calculations made by MERS.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 8 - PENSION PLANS (CONTINUED)**

Actuarial Valuation Date <u>December 31</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL - % Of Covered Payroll
2003	\$ 112,643	\$ 193,940	\$ 81,297	58.1%	\$ 159,821	50.9%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, and 2000 valuations. The funding method was changed to entry age normal for the 1993 valuation.

**NOTE 9 - DEFERRED COMPENSATION PLAN**

PRIMARY GOVERNMENT

Montmorency County offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all County employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

GASB 32 does not require including the deferred compensation balances in a trust and agency fund as has been the case in previous years.

**NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS**

PRIMARY GOVERNMENT

In addition to pension benefits described in Note 8, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the County. During 2004 eleven individuals were eligible for these benefits and the total cost incurred approximated \$42,634.

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

In addition to pension benefits described in Note 8, the discretely presented component unit Road Commission has annually made a motion which provides for certain post employment health care coverage. Presently \$365 per month would be paid towards health insurance coverage for any retired employee. During 2004, six retirees received this benefit and \$26,280 in premiums were paid on their behalf.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 10 - POST EMPLOYMENT HEALTH CARE BENEFITS (CONTINUED)**

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

In addition to pension benefits described in Note 8, the county employment agreement with the Sheriffs department employees and the personnel policy for other county employees provides for certain post employment health care coverage. All county employees must have 15 years of service and be fifty five to receive the benefits. Benefits are received for life for the retiree only. No dependent care coverage is paid for by the county. During 2004 two individuals were eligible for these benefits and the total cost incurred approximated \$8,631. This was paid on behalf of former eligible Authority employees.

**NOTE 11 - CLOSURE AND POSTCLOSURE CARE COSTS**

DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY

State and federal laws and regulations require that the Solid Waste Management Authority place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfill used during the year. The estimated liability for landfill closure and postclosure care costs has a balance of \$3,260,937 as of December 31, 2004, which is based on all cells completed except for the current cell A - Phase II which is 73% filled based upon engineer estimates. At recent rates of refuse received the current cell has an estimated twenty-two months remaining capacity. It is estimated that an additional \$147,540 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the current cell is expected to be filled to capacity. The estimated total current cost of the landfill closure and postclosure care \$3,408,477 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of December 31, 2004. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The Authority has completed construction of an additional cell which began being filled in July of 2002 and was 73% filled according to engineer estimates at December 31, 2004.

The Solid Waste Management Authority is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The County feels it is in compliance with these requirements, and at December 31, 2004, certificates of deposit and other investments in the amount of \$1,804,911 are held for these purposes. It is anticipated that future inflation costs will be financed in part from earnings on investments. The remaining portion of anticipated future inflation costs (including inadequate earnings on investments, if any) and additional costs that might arise from changes in postclosure requirements (due to changes in technology or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both. Governmental Accounting Standards Board Statement No. 18 describes the accounting requirements for solid waste landfill closure and postclosure care costs. The estimated expense for closure and postclosure care costs for 2004 was \$158,136.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 12 - RISK MANAGEMENT**

**PRIMARY GOVERNMENT**

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a State pool member and has deductibles which differ for each type of coverage.

The County is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2004, there were no claims which exceeded insurance coverage. The County had no significant reduction in insurance coverage from previous years.

**DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION**

The Road Commission is self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund and also for general liability, vehicle coverage and building coverage. An annual premium is paid to the association and premium rebates or additional amounts due are calculated annually based upon claim history experienced by the Association.

**DISCRETELY PRESENTED COMPONENT UNIT – SOLID WASTE MANAGEMENT AUTHORITY**

The Authority is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 12 - RISK MANAGEMENT (CONTINUED)**

The Authority participates in the Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The Authority is a State pool member and has deductibles which differ for each type of coverage.

The Authority is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for worker's disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611.

At December 31, 2004, there were no claims which exceeded insurance coverage. The Authority had no significant reduction in insurance coverage from previous years.

**NOTE 13 - EQUIPMENT LEASES**

DISCRETELY PRESENTED COMPONENT UNIT - ROAD COMMISSION

The Road Commission entered into long term equipment leases during 1997. They had a maturity date of 7/15/02. All were renewed with the following terms:

<u>Lease Maturity Equipment Item</u>	<u>Monthly Lease Date</u>	<u>Guaranteed Purchase Payment</u>	<u>Amount</u>
CAT 950 Wheel Loader	08/15/05	\$ 1,500	67,000
CAT 928 Wheel Loader	07/15/05	1,131	35,952
CAT 928 Wheel Loader	07/15/05	1,131	35,952
CAT 143H Motor Grader	07/15/05	1,744	77,359
CAT 143H Motor Grader	07/15/05	2,101	77,712
CAT 143H Motor Grader	07/15/05	1,847	77,460
CAT 613 Scraper	05/15/04	<u>26,758</u>	120,000
		<u>\$ 12,212</u>	

MONTMORENCY COUNTY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

**NOTE 14 – REVENUE SHARING RESERVE FUND / TAX LEVY**

During 2004 the State of Michigan enacted legislation creating the Revenue Sharing Reserve Fund. All Michigan counties are required to set up the fund which will be used to accumulate an additional tax levy which will, over a three year period amount to the 2004 total general operating levy. The county tax levy was previously collected between December and February and will, over the three year period, be switched to July through September. The funds can be transferred annually for general operational use based upon a State mandated amount. The effect is to collect one years tax in advance of previous collections. These funds will be used to offset the loss of State Revenue Sharing. In effect, a previous State obligation has been transferred to the local taxpayers.

The fund recorded taxes as of December 31, 2004 as revenue, in accordance with State mandated guidelines, which is a change in the way property taxes have previously been recognized. These financial statements include County general operating taxes equal to 1 1/3 years levy which reports \$695,450 more taxes than if the previous method of recording taxes had been consistently applied.

**NOTE 15 – LITIGATION**

In the normal course of its activities, the County is a party to various legal actions and subject to certain asserted claims and assessments. Although other actions have been brought, the County has not experienced any additional significant losses or costs. It is the County's opinion that the outcome of any pending actions will not have a material effect on the County's financial position or results of operations.

## **REQUIRED SUPPLEMENTAL INFORMATION**



MONTMORENCY COUNTY  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes and Penalties	\$ 2,106,614	\$ 2,066,614	\$ 2,108,384	\$ 41,770
Licenses and Permits	4,800	4,800	9,787	4,987
Intergovernmental Revenue:				
Federal	26,025	47,494	63,664	16,170
State	371,470	372,970	330,415	(42,555)
Charges for Services	780,497	690,497	778,596	88,099
Fines and Forfeits	7,500	7,500	8,787	1,287
Interest and Rents	44,020	39,520	38,388	(1,132)
Other Revenue	30,327	51,887	102,481	50,594
<b>TOTAL REVENUES</b>	<b>3,371,253</b>	<b>3,281,282</b>	<b>3,440,502</b>	<b>159,220</b>
EXPENDITURES				
Current				
Legislative	169,538	187,095	167,097	19,998
Judicial	596,276	618,841	602,192	16,649
General Government	1,283,469	1,153,289	1,009,737	143,552
Public Safety	1,098,258	1,171,480	1,130,683	40,797
Public Works	-	-	-	-
Health and Welfare	181,329	214,731	179,797	34,934
Recreation and Culture	69,473	14,303	11,815	2,488
Capital Outlay	12,400	51,610	54,222	(2,612)
<b>TOTAL EXPENDITURES</b>	<b>3,410,743</b>	<b>3,411,349</b>	<b>3,155,543</b>	<b>255,806</b>
REVENUES OVER (UNDER) EXPENDITURES	(39,490)	(130,067)	284,959	415,026
OTHER FINANCING SOURCES (USES)				
Transfers In	223,342	223,342	94,058	(129,284)
Transfers (Out)	(258,852)	(462,402)	(416,007)	46,395
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(35,510)</b>	<b>(239,060)</b>	<b>(321,949)</b>	<b>(82,889)</b>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(75,000)	(369,127)	(36,990)	332,137
FUND BALANCES, BEGINNING OF YEAR	75,000	369,127	358,903	(10,224)
FUND BALANCES, END OF YEAR	\$ -	\$ -	\$ 321,913	\$ 321,913

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE  
BUDGET AND ACTUAL  
DECEMBER 31, 2004

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		OVER (UNDER)
TAXES AND PENALTIES				
Current Property Taxes	\$ 1,997,326	\$ 1,957,326	\$ 1,996,686	\$ 39,360
Other	109,288	109,288	111,698	2,410
TOTAL TAXES AND PENALTIES	2,106,614	2,066,614	2,108,384	41,770
LICENSES AND PERMITS				
Dog and Kennel Licenses	3,800	3,800	3,928	128
Gun Permits	-	-	2,010	2,010
Marriage Licenses	1,000	1,000	3,849	2,849
TOTAL LICENSES AND PERMITS	4,800	4,800	9,787	4,987
FEDERAL GRANTS				
Emergency Services	9,625	31,094	32,157	1,063
Byrne Grant	-	-	15,000	15,000
Prosecuting Attorney Cooperative Reimbursement	16,400	16,400	16,507	107
TOTAL FEDERAL GRANTS	26,025	47,494	63,664	16,170
STATE GRANTS				
Probate Judges Salary	20,000	20,000	23,065	3,065
Salary Standardization	23,850	23,850	35,928	12,078
Court Equity Distribution	68,000	68,000	75,726	7,726
Township Liquor Licenses	11,000	11,000	12,038	1,038
MSU - Nutrition	-	-	7,747	7,747
State Revenue Sharing - General	170,940	170,940	91,467	(79,473)
Voters Registration	100	100	212	112
Cigarette Tax	4,976	4,976	5,932	956
Juror Reimbursement	-	-	4,426	4,426
Convention Facilities	50,034	50,034	49,021	(1,013)
Drunk Driving	2,570	4,070	4,208	138
Victim's Rights	20,000	20,000	20,645	645
TOTAL STATE GRANTS	371,470	372,970	330,415	(42,555)

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2004

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		OVER (UNDER)
CHARGES FOR SERVICES				
Circuit Court costs and Fees	\$32,200	\$32,200	\$48,399	\$16,199
District Court Costs and Fees	175,000	175,000	178,506	3,506
Friend of Court	800	800	430	(370)
Prosecutor Services	4,000	4,000	7,260	3,260
Animal Control	1,000	1,000	1,778	778
Probate Court Costs and Fees	5,500	5,500	7,989	2,489
Clerk - Services	9,040	9,040	15,993	6,953
Equalization Services	20,000	20,000	29,961	9,961
Treasurer Services	63,888	13,888	18,795	4,907
Register of Deeds Services	163,400	123,400	129,282	5,882
Register Transfer Tax	40,000	40,000	48,755	8,755
Sheriff Services	20,869	20,869	13,081	(7,788)
Soil Erosion Services	8,000	8,000	9,250	1,250
Jail	218,800	218,800	251,117	32,317
Landfill Administration	18,000	18,000	18,000	-
TOTAL CHARGES FOR SERVICES	780,497	690,497	778,596	88,099
FINES & FORFEITURES				
District Bond Forfeit	7,500	7,500	8,787	1,287
TOTAL FINES AND FORFEITURES	7,500	7,500	8,787	1,287
INTEREST EARNED	30,000	30,000	29,041	(959)
RENTS	14,020	9,520	9,347	(173)
OTHER REVENUE				
District Health Utility Reimbursement	4,000	4,000	4,768	768
Court Year End Settlements	-	-	54,744	54,744
Miscellaneous Refunds and Reimbursements	26,327	47,887	42,969	(4,918)
TOTAL OTHER REVENUE	30,327	51,887	102,481	50,594

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF REVENUES AND OTHER SOURCES--BY SOURCE  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2004

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		OVER (UNDER)
TOTAL REVENUE	\$3,371,253	\$3,281,282	\$3,440,502	\$159,220
OTHER FINANCING SOURCES				
Operating Transfers In:				
Tax Payment Funds	218,342	218,342	9,150	(209,192)
Revenue Sharing Reserve	-	-	78,298	78,298
			500	500
Residential Audit	-	-	600	600
Truancy	-	-	510	510
Jail commissary	5,000	5,000	5,000	-
TOTAL OTHER FINANCING SOURCES	223,342	223,342	94,058	(129,284)
TOTAL REVENUES AND OTHER SOURCES	\$ 3,594,595	\$ 3,504,624	\$ 3,534,560	\$ 29,936

(Concluded)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY  
BUDGET AND ACTUAL  
DECEMBER 31, 2004

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		(OVER) UNDER
LEGISLATIVE				
Board of Commissioners	\$ 169,538	\$ 187,095	\$ 167,097	\$ 19,998
TOTAL LEGISLATIVE	169,538	187,095	167,097	19,998
JUDICIAL				
Circuit Court	165,525	165,875	165,284	591
Family Court	27,937	27,937	27,936	1
District Court	161,979	171,834	170,086	1,748
Friend of Court	47,645	47,645	47,644	1
Probate Court	85,929	93,029	86,915	6,114
Jury Commission	1,388	1,388	1,057	331
Court Appointed Attorney	49,128	54,363	54,363	-
Other	56,745	56,770	48,907	7,863
TOTAL JUDICIAL	596,276	618,841	602,192	16,649
GENERAL GOVERNMENT				
Elections	22,970	22,970	9,191	13,779
Clerk	121,018	132,848	128,632	4,216
Equalization	70,192	81,346	73,348	7,998
Prosecuting Attorney	152,722	163,567	155,685	7,882
Register of Deeds	84,591	84,476	81,183	3,293
Planning Commission	1,000	1,000	-	1,000
General Services	308,280	115,525	83,013	32,512
Treasurer	117,846	125,866	117,679	8,187
Cooperative Extension	21,150	27,950	27,931	19
Data Processing	100,560	109,710	79,531	30,179
Courthouse & Grounds	96,610	100,735	85,207	15,528
Auto Repair and Maintenance	50,807	51,432	51,351	81
Drain Commissioner	13,438	13,538	12,487	1,051
Other	122,285	122,326	104,499	17,827
TOTAL GENERAL GOVERNMENT	1,283,469	1,153,289	1,009,737	143,552

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2004

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		(OVER) UNDER
PUBLIC SAFETY				
Sheriff	\$ 457,555	\$ 498,932	\$ 489,121	\$ 9,811
Jail	442,860	447,185	446,738	447
Emergency Services	16,825	44,300	43,669	631
Animal Control	2,175	2,175	1,319	856
Soil Erosion	7,628	7,628	4,405	3,223
Other	171,215	171,260	145,431	25,829
TOTAL PUBLIC SAFETY	1,098,258	1,171,480	1,130,683	40,797
HEALTH AND WELFARE				
Health Department	65,848	65,318	65,035	283
Substance Abuse	24,385	56,195	28,722	27,473
Medical Examiner	6,814	6,814	6,240	574
Mental Health	31,207	31,207	31,207	-
State Institutions	30,000	29,000	27,623	1,377
Social Welfare	5,001	6,086	5,922	164
Veterans' Service Board	2,215	5,035	4,833	202
Veterans' Burial	10,000	9,210	4,800	4,410
Other	5,859	5,866	5,415	451
TOTAL HEALTH AND WELFARE	181,329	214,731	179,797	34,934
OTHER				
Dues and Memberships	8,533	8,533	8,473	60
Other	58,000	2,830	403	2,427
Appropriations	2,940	2,940	2,939	1
TOTAL OTHER	69,473	14,303	11,815	2,488
CAPITAL OUTLAY	12,400	51,610	54,222	(2,612)
TOTAL EXPENDITURES	3,410,743	3,411,349	3,155,543	255,806

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER USES--BY ACTIVITY  
BUDGET AND ACTUAL (CONTINUED)  
DECEMBER 31, 2004

	BUDGETED AMOUNT		ACTUAL	VARIANCE WITH FINAL BUDGET
	ORIGINAL	FINAL		(OVER) UNDER
OPERATING TRANSFERS				
Law Enforcement Grant	\$ 27,942	\$ 27,942	\$ 27,942	\$ -
Law Library	4,365	4,365	4,365	-
ROD Automation	5,000	11,000	11,000	-
Budget Stabilization	-	133,000	133,000	-
Residential Audit	-	600	600	-
Child Care	164,685	164,685	120,000	44,685
Remonumentation	-	1,000	1,000	-
County Improvement	24,500	24,500	24,500	-
Building Authority - Debt Service	32,360	95,310	93,600	1,710
TOTAL OPERATING TRANSFERS	258,852	462,402	416,007	46,395
 TOTAL EXPENDITURES AND OPERATING TRANSFERS	 \$ 3,669,595	 \$ 3,873,751	 \$ 3,571,550	 \$ 302,201

(Concluded)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
REVENUE SHARING RESERVE  
SCHEDULE OF REVENUES, EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ -	\$ -	\$ 695,450	\$ 695,450
Licenses and Permits	-	-	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	-	-	-	-
Other Local Units	-	-	-	-
Charges for Services	-	-	-	-
Fines and Forfeits	-	-	-	-
Interest and Rents	-	-	-	-
Other Revenue	-	-	-	-
<b>TOTAL REVENUES</b>	<b>-</b>	<b>-</b>	<b>695,450</b>	<b>695,450</b>
EXPENDITURES				
Judicial	-	-	-	-
General Government	-	-	-	-
Public Safety	-	-	-	-
Health and Welfare	-	-	-	-
Recreation and Cultural	-	-	-	-
Debt Service				
Principal	-	-	-	-
Interest and Other Charges	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
REVENUES OVER (UNDER) EXPENDITURES	-	-	695,450	695,450
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers (Out)	-	-	(78,298)	(78,298)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>(78,298)</b>	<b>(78,298)</b>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	-	-	617,152	617,152
FUND BALANCES, BEGINNING OF YEAR	-	-	-	-
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 617,152</b>	<b>\$ 617,152</b>

See Accountant's Compilation Report



MONTMORENCY COUNTY  
COUNTY LIBRARY  
SCHEDULE OF REVENUES, EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Taxes	\$ 217,000	\$ 217,000	\$ 222,630	\$ 5,630
Licenses and Permits	-	-	-	-
Intergovernmental Revenue				
Federal	-	-	-	-
State	8,000	8,000	22,288	14,288
Other Local Units	2,500	2,500	-	(2,500)
Charges for Services	-	-	-	-
Fines and Forfeits	35,000	35,000	42,245	7,245
Interest and Rents	1,500	1,500	3,315	1,815
Other Revenue	2,000	2,000	1,831	(169)
TOTAL REVENUES	266,000	266,000	292,309	26,309
EXPENDITURES				
Wages	132,385	137,385	138,881	(1,496)
Fringes	47,250	48,825	43,685	5,140
Supplies	32,600	32,600	31,471	1,129
Services	44,000	37,425	28,805	8,620
Capital Outlay	85,000	85,000	62,416	22,584
TOTAL EXPENDITURES	341,235	341,235	305,258	35,977
REVENUES OVER (UNDER) EXPENDITURES	(75,235)	(75,235)	(12,949)	62,286
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers (Out)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(75,235)	(75,235)	(12,949)	62,286
FUND BALANCES, BEGINNING OF YEAR	-	110,817	110,817	-
FUND BALANCES, END OF YEAR	\$ (75,235)	\$ 35,582	\$ 97,868	\$ 62,286

See Accountant's Compilation Report

## **OTHER SUPPLEMENTAL INFORMATION**

MONTMORENCY COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	GYPSY MOTH	BUILDING CODE	RESIDENTIAL AUDIT	ROD AUTOMATION
ASSETS				
Cash	\$ 105,748	\$ 58,587	\$ 55,069	\$ 1,961
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Mortgages/Notes	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Other Governmental Units	-	-	-	-
<b>TOTAL ASSETS</b>	<b>105,748</b>	<b>58,587</b>	<b>55,069</b>	<b>1,961</b>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ -	\$ 393	\$ -	\$ 248
Accrued Liabilities	-	2,163	760	841
Due to Other Funds	-	-	-	-
Due to Other Governmental Units	-	-	29,655	-
Advances From Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>2,556</b>	<b>30,415</b>	<b>1,089</b>
FUND BALANCE				
Reserved	-	56,031	24,654	872
Unreserved	105,748	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>105,748</b>	<b>56,031</b>	<b>24,654</b>	<b>872</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 105,748</b>	<b>\$ 58,587</b>	<b>\$ 55,069</b>	<b>\$ 1,961</b>

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SPECIAL REVENUE FUNDS						
BUDGET STABILIZATION	911 SERVICES	CORRECTIONS OFFICER TRAINING	LAW ENFORCEMENT GRANTS	LAW ENFORCEMENT TRAINING	LAW LIBRARY	
\$ 266,000	\$ 145,015	\$ 4,224	\$ 30,800	\$ 2,331	\$ 586	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	20,328	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	12,977	-	20,060	-	-	
266,000	178,320	4,224	50,860	2,331	586	
\$ -	\$ 5,572	\$ -	\$ 1,494	\$ -	\$ 401	
-	5,603	-	1,296	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	11,175	-	2,790	-	401	
-	167,145	-	-	-	-	
266,000	-	4,224	48,070	2,331	185	
266,000	167,145	4,224	48,070	2,331	185	
\$ 266,000	\$ 178,320	\$ 4,224	\$ 50,860	\$ 2,331	\$ 586	

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	HUD	ECONOMIC DEVELOPMENT	COPS IN SCHOOL
ASSETS			
Cash	\$ 55,576	\$ 32,618	\$ 5,294
Investments	-	-	-
Receivables:			
Taxes	-	-	-
Accounts	-	-	-
Mortgages	-	143,485	-
Due From Other Funds	-	-	-
Due From Other Governmental Units	-	-	14,041
<b>TOTAL ASSETS</b>	<b>55,576</b>	<b>176,103</b>	<b>19,335</b>
LIABILITIES AND FUND EQUITY			
LIABILITIES			
Accounts Payable	\$ -	\$ 15	\$ 1,040
Accrued Liabilities	-	-	1,303
Due to Other Funds	-	-	15,000
Due to Other Governmental Units	-	-	-
Advances From Other Governmental Units	-	-	-
Deferred Revenue	-	143,485	-
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>143,500</b>	<b>17,343</b>
FUND BALANCE			
Reserved	55,576	32,603	1,992
Unreserved	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>55,576</b>	<b>32,603</b>	<b>1,992</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 55,576</b>	<b>\$ 176,103</b>	<b>\$ 19,335</b>

See Accountant's Compilation Report

SPECIAL REVENUE FUNDS

TRUANCY	STATE DOMESTIC PREPAREDNESS	MICHIGAN SAFE KIDS	DARE	VICTIM ADVOCACY	CHILD CARE
\$ -	\$ 120	\$ 167	\$ 25	\$ 133	\$ 64,801
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	56,617	-	-	-	38,192
-	56,737	167	25	133	102,993
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,274
-	-	-	-	-	-
-	56,000	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	56,000	-	-	-	25,274
-	737	-	-	-	-
-	-	167	25	133	77,719
-	737	167	25	133	77,719
\$ -	\$ 56,737	\$ 167	\$ 25	\$ 133	\$ 102,993

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	SPECIAL REVENUE			
	VETERANS' AFFAIRS	VETERANS' TRUST	REMONUMEN- TATION	COMMISSION ON AGING
ASSETS				
Cash	\$ 27,534	\$ 941	\$ 25,703	\$ 42
Investments	-	-	-	-
Receivables:				
Taxes	-	-	-	198,159
Accounts	-	-	-	-
Mortgages/Notes	-	-	-	-
Due From Other Funds	-	-	-	-
Due From Other Governmental Units	-	-	-	-
<b>TOTAL ASSETS</b>	<b>27,534</b>	<b>941</b>	<b>25,703</b>	<b>198,201</b>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Accrued Liabilities	-	-	-	-
Due to Other Funds	-	-	-	-
Due to Other Governmental Units	-	-	-	-
Advances From Other Governmental Units	-	-	-	-
Deferred Revenue	-	-	-	198,159
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>198,159</b>
FUND BALANCE				
Reserved	-	-	25,703	42
Unreserved	27,534	941	-	-
<b>TOTAL FUND BALANCES</b>	<b>27,534</b>	<b>941</b>	<b>25,703</b>	<b>42</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 27,534</b>	<b>\$ 941</b>	<b>\$ 25,703</b>	<b>\$ 198,201</b>

See Accountant's Compilation Report

FUNDS		DEBT SERVICE		CAPITAL PROJECT		
COUNTY IMPROVEMENT	JAIL COMMISSARY	BUILDING AUTHORITY DEBT SERVICE	BUILDING AUTHORITY CAPITAL PROJECT	LAKE LEVELS CAPITAL PROJECT	TOTAL	
\$ 26,205	\$ 4,084	\$ 1,728	\$ 460	\$ 7,978	\$ 923,730	
-	-	-	-	-	-	
-	-	-	-	-	198,159	
-	1,267	-	-	-	21,595	
-	-	-	-	-	143,485	
-	-	-	-	-	-	
-	-	-	-	-	141,887	
26,205	5,351	1,728	460	7,978	1,428,856	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,437	
-	-	-	-	-	11,966	
-	-	-	-	-	71,000	
-	-	-	-	-	29,655	
-	-	-	-	-	-	
-	-	-	-	-	341,644	
-	-	-	-	-	488,702	
-	-	1,728	460	7,978	375,521	
26,205	5,351	-	-	-	564,633	
26,205	5,351	1,728	460	7,978	940,154	
\$ 26,205	\$ 5,351	\$ 1,728	\$ 460	\$ 7,978	\$ 1,428,856	

(Concluded)

See Accountant's Compilation Report



MONTMORENCY COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	GYPSY MOTH	BUILDING CODE	RESIDENTIAL AUDIT
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and Permits	-	177,063	-
Intergovernmental Revenue			
Federal	-	-	-
State	-	-	-
Other Local Units	-	-	-
Charges for Services	5,167	-	33,767
Fines and Forfeits	-	-	-
Interest and Rents	-	-	-
Other Revenue	310	45	-
TOTAL REVENUES	5,477	177,108	33,767
EXPENDITURES			
Current			
Judicial	-	-	-
General Government	-	-	8,577
Public Safety	-	161,233	-
Health and Welfare	18,579	-	-
Recreation and Cultural	-	-	-
Debt service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	18,579	161,233	8,577
REVENUES OVER (UNDER) EXPENDITURES	(13,102)	15,875	25,190
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	600
Transfers (Out)	-	-	(600)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(13,102)	15,875	25,190
FUND BALANCES, BEGINNING OF YEAR	118,850	40,156	(536)
FUND BALANCES, END OF YEAR	\$ 105,748	\$ 56,031	\$ 24,654

See Accountant's Compilation Report

SPECIAL REVENUE FUNDS							
ROD AUTOMATION	BUDGET STABILIZATION	911 SERVICES	CORRECTION OFFICER TRAINING	LAW ENFORCEMENT GRANTS	LAW ENFORCEMENT TRAINING	LAW LIBRARY	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	80,596	-	70,175	2,483	-	
-	-	-	-	-	-	-	
27,455	-	159,637	5,030	-	-	-	
-	-	-	-	-	-	2,000	
-	-	-	-	-	-	-	
-	-	-	34	596	-	-	
27,455	-	240,233	5,064	70,771	2,483	2,000	
-	-	-	-	-	-	8,258	
36,854	-	-	-	-	-	-	
-	-	230,450	840	85,450	3,315	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
9,856	-	-	-	-	-	-	
46,710	-	230,450	840	85,450	3,315	8,258	
(19,255)	-	9,783	4,224	(14,679)	(832)	(6,258)	
11,000	133,000	-	-	27,942	-	4,365	
-	-	-	-	-	-	-	
11,000	133,000	-	-	27,942	-	4,365	
(8,255)	133,000	9,783	4,224	13,263	(832)	(1,893)	
9,127	133,000	157,362	-	34,807	3,163	2,078	
\$ 872	\$ 266,000	\$ 167,145	\$ 4,224	\$ 48,070	\$ 2,331	\$ 185	

(Continued)

See Accountant's Compilation Report

MONTMORENCY COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

	HUD	ECONOMIC DEVELOPMENT	COPS IN SCHOOL
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-
Intergovernmental Revenue			
Federal	137,764	-	48,710
State	-	-	-
Other Local Units	-	-	-
Charges for Services	-	-	-
Fines and Forfeits	-	-	-
Interest and Rents	669	-	-
Other Revenue	-	25,258	-
TOTAL REVENUES	138,433	25,258	48,710
EXPENDITURES			
Current			
Judicial	-	-	-
General Government	-	244	-
Public Safety	-	-	48,085
Health and Welfare	82,857	-	-
Recreation and Cultural	-	-	-
Debt service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	82,857	244	48,085
REVENUES OVER (UNDER) EXPENDITURES	55,576	25,014	625
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	-
Transfers (Out)	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	55,576	25,014	625
FUND BALANCES, BEGINNING OF YEAR	-	7,589	1,367
FUND BALANCES, END OF YEAR	\$ 55,576	\$ 32,603	\$ 1,992

See Accountant's Compilation Report

SPECIAL REVENUE FUNDS						
TRUANCY	STATE DOMESTIC PREPAREDNESS	MICHIGAN SAFE KIDS	DARE	VICTIM ADVOCACY	CHILD CARE	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-	-	-
-	94,261	-	-	-	-	-
-	-	-	-	-	-	124,294
-	-	-	-	-	-	15,000
-	-	-	-	-	-	25,403
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	94,261	-	-	-	-	164,697
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	25,643	-	566	470	-	-
-	-	-	-	-	-	275,416
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	67,896	-	-	-	-	-
-	93,539	-	566	470	-	275,416
-	722	-	(566)	(470)	-	(110,719)
-	-	-	-	-	-	120,000
(510)	-	-	-	-	-	-
(510)	-	-	-	-	-	120,000
(510)	722	-	(566)	(470)	-	9,281
510	15	167	591	603	-	68,438
\$ -	\$ 737	\$ 167	\$ 25	\$ 133	\$ -	\$ 77,719

(Continued)

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MONTMORENCY COUNTY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2004

			SPECIAL
	VETERANS' AFFAIRS	VETERANS' TRUST	REMONUMEN- TATION
REVENUES			
Taxes	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-
Intergovernmental Revenue			
Federal	-	-	-
State	-	5,433	27,539
Other Local Units	-	-	-
Charges for Services	-	-	-
Fines and Forfeits	-	-	-
Interest and Rents	-	-	-
Other Revenue	-	-	-
TOTAL REVENUES	-	5,433	27,539
EXPENDITURES			
Current			
Judicial	-	-	-
General Government	-	-	30,114
Public Safety	-	-	-
Health and Welfare	4,225	4,482	-
Recreation and Cultural	-	-	-
Debt service			
Principal	-	-	-
Interest and Other Charges	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	4,225	4,482	30,114
REVENUES OVER (UNDER) EXPENDITURES	(4,225)	951	(2,575)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	1,000
Transfers (Out)	-	(500)	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(500)	1,000
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(4,225)	451	(1,575)
FUND BALANCES, BEGINNING OF YEAR	31,759	490	27,278
FUND BALANCES, END OF YEAR	\$ 27,534	\$ 941	\$ 25,703

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REVENUE		FUNDS		DEBT SERVICE	CAPITAL PROJECT		
COMMISSION ON AGING	COUNTY IMPROVEMENT	JAIL COMMISSARY	BUILDING AUTHORITY DEBT SERVICE FUND	BUILDING AUTHORITY CAPITAL PROJECT FUND	LAKE LEVELS CAPITAL PROJECT FUND		TOTAL
\$ 93,539	\$ -	\$ -	\$ -	\$ -	\$ 8,095	\$	101,634
-	-	-	-	-	-		177,063
-	-	-	-	-	-		280,735
-	-	-	-	-	-		310,520
-	-	-	-	-	-		15,000
-	-	32,066	-	-	-		288,525
-	-	-	-	-	-		2,000
122	-	-	-	-	58		849
-	-	-	-	-	-		26,243
93,661	-	32,066	-	-	8,153		1,202,569
-	-	-	-	-	-		8,258
-	-	-	-	-	1,157		76,946
-	-	25,964	-	-	-		582,016
93,755	-	-	-	-	-		479,314
-	-	-	-	-	-		-
-	-	-	50,000	-	-		50,000
-	-	-	43,600	-	-		43,600
-	-	-	-	-	-		77,752
93,755	-	25,964	93,600	-	1,157		1,317,886
(94)	-	6,102	(93,600)	-	6,996		(115,317)
-	24,500	-	93,600	-	-		416,007
-	-	(5,000)	-	-	-		(6,610)
-	24,500	(5,000)	93,600	-	-		409,397
(94)	24,500	1,102	-	-	6,996		294,080
136	1,705	4,249	1,728	460	982		646,074
\$ 42	\$ 26,205	\$ 5,351	\$ 1,728	\$ 460	\$ 7,978	\$	940,154

(Concluded)

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 13, 2005

Board of Commissioners  
Montmorency County  
Atlanta, Michigan 49709

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Montmorency, Michigan as of and for the year ended December 31, 2004, which collectively comprise the County of Montmorency, Michigan's basic financial statements and have issued my report thereon dated June 13, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Montmorency County's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of noncompliance that I have reported to management of Montmorency County in a separate letter dated June 13, 2005.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Montmorency County's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of Montmorency County in a separate letter dated June 13, 2005.

Page 2  
Board of Commissioners  
Montmorency County  
June 13, 2005

This report is intended solely for the information and use of management, the Board of Commissioners, federal awarding agencies, pass-through entities, and Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA, P.C.", written in a cursive style.

THOMAS R. ZICK, CPA, P.C.  
Certified Public Accountant





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FINANCIAL AUDIT COMMENTS

June 13, 2005

Montmorency County Board of Commissioners  
Montmorency County  
Atlanta, Michigan, 49709

In planning and performing my audit of the general purpose financial statements of Montmorency County, Michigan, for the year ended December 31, 2004, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I feel should be brought to your attention as follows:

BUDGETS

Budgetary Procedures

The Board of Commissioners properly adopted a budget for the General Fund for the year ended December 31, 2004 in accordance with Public Act 621 of 1978, The Uniform budgeting and Accounting Act.

Public Act 621 of 1978, section 18 (1), as amended, provides that a County shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the General Fund has been shown on a functional basis. The approved budget of the County for the General Fund was adopted on a line item basis by activity. The County incurred only minor unfavorable budget variances in the funds which is a major improvement over prior years.

During the year ended December 31, 2004 expenditures were incurred in excess of the amounts appropriated in the amended budget of the general fund and special revenue fund types of the primary government as follows:

<u>Variance</u>	<u>Amended Budget</u>	<u>Actual</u>
General:		
Capital Outlay	\$ 51,610	\$ 54,222
Special Revenue:		
Truancy	\$ -0-	\$ 510
Revenue Sharing Reserve	\$ -0-	\$ 78,298

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

### FIXED ASSETS

The County has had the capital asset schedule prepared, and updated and the balances are reflected in the audit report. There are several things which should be done to assist in updating for 2005 as follows:

1. The additions to the schedule need to be reconciled to the County capital outlay ledger accounts. I suggest that every time the clerk's office codes a check to a capital outlay account a copy of the vendor invoice be made and forwarded to the County Coordinator.
2. At year end the total additions should agree to the total capital outlay expenditures.
3. Reconcile the vehicles to the list maintained by the county mechanic to account for sold or otherwise disposed of assets.
4. The library assets need to be added to the list and other corrections to the list should be forwarded to the appraisal firm to correct 2004 information going forward.

### ACCOUNTING / COMPUTER SYSTEM

There are numerous old outstanding checks listed on the common account bank reconciliation which should be reviewed and cleared with a journal entry where possible.

All of the department/activity numbers in the chart of accounts have not been changed to agree with the new state chart of accounts. These should be changed for 2005.

The bond account and 88<sup>th</sup> District Court Trust accounts are not being reconciled monthly. The balances in the accounts are not reflected on the county ledger either. The balances must be recorded and the accounts reconciled monthly. I have commented on this in prior years.

All journal entries recorded in the ledger should be supported by organized, readily accessible worksheets or other support. I suggest this documentation be maintained either right with the journal entries or in a similar book organized by journal entry number. I noted several entries where adequate support could not be located.

There were several accounts set up in the Tax Revolving fund which were by title an asset/liability/balance sheet account. They were coded as if they were an expenditure account which was automatically closed to the fund balance at year end. I corrected these with a journal entry but the coding need to be corrected for 2005.

The EDC funds are currently deposited into a non-interest bearing account even though in prior years they were in an interest bearing account. I suggest converting this to an interest bearing account.

There are numerous accounts in the Trust and Agency Fund with balances showing no change from prior years. In addition there are several accounts with debit balances. Some are reasonably large. All should be analyzed and cleared in 2005.

I noted an instance where several checks received by the county were not immediately deposited. In one instance the check was held for over two months before being deposited. These checks were all related to a specific grant match. I suggest in the future that all checks be deposited immediately and use the Trust and Agency Fund to account for the funds until final resolution or proper coding is determined.

The paragraph shown under the Landfill Authority comments describing a check which overstated expenditures points out the need for a formal policy to prevent this from occurring in the future. I suggest a written form be prepared to request the duplicate check, and this form be used to generate a stop payment and a journal entry to correct the accounting records.

#### CHILD CARE FUND

The October, November, and December offset billings (form 2381) were recorded backwards which made both the revenue and expense incorrect. I corrected this with a journal entry.

The basic grant balance for 2004 in an amount of \$6,500 was never received from the State. The billing was forwarded to the State but was somehow overlooked and never entered into their system. I followed up on the lost billing and the State is now in the process of generating a reimbursement check.

I suggest that a copy of all grant/reimbursement billings be forwarded to the County Treasurer so that in the future she can follow-up if a receipt doesn't arrive within a reasonable time period.

#### OTHER/GENERAL

The County Board should approve all depositories, not just the primary ones. In the past, at the first meeting of the year, the Board approved principal depositories. They should approve all depositories.

#### LIBRARY FUND

The Library fund began preparing its own accounting records as of May 2004 and vouchering for expenditures on a periodic basis after that date. While there were minor conversion problems overall the accounting process went quite well.

The following is a list of suggestions to assist in preparing for 2005:

1. The imprest bank account should have a set balance and then voucher monthly to maintain that balance.
2. The County Treasurer must record the checking account imprest amount on the county ledger.
3. The County Treasurer should be an authorized signer on the account.
4. The County Treasurer should get a copy of the monthly bank reconciliation and bank statement.
5. Monthly the Library accounting records should be balanced to the County Treasurer records and a copy provided to the County.
6. Annually a year end balance sheet and revenue and expense statement should be provided to the County, which agrees to the County Treasurer ledger.
7. Periodically (as purchased) the Library should forward a copy of vendor invoice for capital outlay – i.e. equipment, furniture, fixtures, computers, buildings, etc. to the County Coordinator for inclusion in the County Capital Asset listing.

#### SOLID WASTE MANAGEMENT LANDFILL AUTHORITY

##### CASH DISBURSEMENT

During 2004 a check in excess of \$30,000 was written to a vendor in September. The vendor had not received the check so a duplicate was issued in October. The year end bank reconciliation still showed the original check as outstanding which had the effect of overstating recorded expenses by that amount. We corrected the error with an adjusting entry.

#### ACCOUNTS RECEIVABLE / BILLING STATEMENTS

The accounts receivable posting process, while working, appears to still need additional accounting controls. I would suggest that a control total be set up in the County Treasurer ledger. Monthly, sales billings would be posted through a journal entry and payments would be posted through the receipts procedure to accounts receivable. At month end, the control receivable balance would be reconciled to a detail listing by hauler. The Treasurer's office would maintain the control totals while the detail receivables would be maintained in the Authority office. This is a repeat comment from last year.

#### LONG-TERM DEBT

The long-term debt total at December 31, 2004 is \$1,065,441 which has decreased by \$503,741 over the prior year. This debt still includes \$490,000 plus interest on the bonds for cell-A phase II, which was 73% full at the end of last year (December 31, 2004). The debt has been dramatically reduced, and by self funding the construction of the most recent cell, this should increase the Authority cash flow over the next several years.

#### ACCOUNTING PROCEDURES

The Authority needs to improve in recording and processing certain accounting transactions. For example, during 2004 cell construction was charged as an expense but should have been capitalized as a fixed asset to be depreciated. The bond principle payments were classified as an expense and should have been posted as a reduction in the liability accounts and the payments on the equipment lease/purchases should be separated between interest and principle and posted to interest expense and as a debit to the liability account rather than the entire payment being posted as an expenditure.

This report is intended solely for the information and use of Montmorency County Board of Commissioners, management, and others within the administration as well as the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.



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